



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT OF THE CABINET FOR WORKFORCE DEVELOPMENT**

**Made as Part of the Statewide Single Audit
of the Commonwealth of Kentucky**

For the Year Ended June 30, 2001

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EXECUTIVE SUMMARY

Report of the Auditor of Public Accounts Audit of the Cabinet for Workforce Development For the Year Ended June 30, 2001

BACKGROUND: The Single Audit Act of 1984, subsequent amendments, and has federal corresponding regulations, require the auditing of financial statements and the compliance and internal controls applicable to federal moneys received by the Commonwealth. To comply with these requirements, we audited internal controls and compliance at both the central and agency level. This summary is on our audit of one (1) organizational unit of the Commonwealth, the Cabinet for Workforce Development.

EXPENDITURES: The Cabinet for Workforce Development expended federal awards in the following manner:

- \$501,394,915 in cash from three (3) federal grantors

SUMMARY OF AUDITOR'S RESULTS:

Financial Statement Accounts

Six (6) financial statement findings, two (2) of which are material and one (1) is an other matter

Federal Awards and Schedule of Expenditures of Federal Awards

Nine (9) federal award findings, two (2) of which are material and one (1) is an other matter

GENERAL TOPICS OF REPORTABLE CONDITIONS:

- Inadequate accounting procedures
- Delay in depositing of receipts
- Inadequate subrecipient monitoring procedures
- Lack of supporting documentation
- Noncompliance with federal and state laws and regulations

Agencies With Conditions

Department/Division With Material Weakness

Division of Unemployment Insurance and Department for Training and Reemployment

Department/Division With Reportable Conditions

Division of Unemployment Insurance and Department for Training and Reemployment

Department/Division With Noncompliances

Division of Unemployment Insurance and Department for Training and Reemployment

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INTRODUCTION

**CABINET FOR WORKFORCE DEVELOPMENT
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2001**

Introduction

The Auditor of Public Accounts (APA), acting as principal auditor in conjunction with various certified public accounting firms, annually performs a statewide single audit of the Commonwealth of Kentucky. This audit allows the Commonwealth to comply with federal audit requirements as set forth in the Single Audit Act of 1984, as amended by Public Law 104-156, and the regulations contained in the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Schedule of Expenditures of Federal Awards

The Schedule of Expenditures of Federal Awards for the Cabinet for Workforce Development (CWD) is organized by federal grantor. The Catalog of Federal Domestic Assistance (CFDA) numbers and program names are listed under the federal grantor administering the program. The Notes to the Schedule of Expenditures of Federal Awards provide more detailed information on certain aspects of the expenditures, such as the amount given to subrecipients.

Since not all state agencies use the Management Administrative Reporting System (MARS) Subsystems for Projects, the APA requested the Cabinet for Workforce Development to prepare worksheets of federal financial assistance. The source of these worksheets included MARS, agency accounting systems, agency manual records, etc. The Cabinet for Workforce Development was also asked to reconcile the worksheets to MARS and to federal grantor reports. These worksheets were compiled into the accompanying Schedule of Expenditures of Federal Awards.

Schedule of Findings and Questioned Costs

The Schedule of Findings and Questioned Costs consists of three (3) sections:

- Summary of Auditor's Results,
- Financial Statement Findings, and
- Federal Award Findings and Questioned Costs.

The audit finding number and classification (as reportable, material, or other matter) are provided as part of the audit opinion summary. Major programs audited are listed on the Summary of Auditor's Results. The Financial Statement Findings list the audit findings related to the financial statements (required to be reported in accordance with *Government Auditing Standards*). The Federal Award Findings and Questioned Costs lists all findings related to federal awards. Generally, the state agency, CFDA number and program, federal agency, pass-through agency, and the compliance area to which the finding relates are presented. In both reports, reportable conditions and reportable instances of noncompliance are presented first, then material weaknesses and material instances of noncompliance, followed by other matters.

**CABINET FOR WORKFORCE DEVELOPMENT
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

Summary Schedule of Prior Audit Findings

Audit findings reported in the Schedule of Findings and Questioned Costs for the fiscal year ended June 30, 2000, as well as any previous finding which have not been resolved, are reported in the Summary Schedule of Prior Audit Findings for the fiscal year ended June 30, 2001. If the APA determines the agency's Summary Schedule of Prior Audit Findings materially misrepresents the status of any prior audit finding, a new audit finding is issued and reported in the Schedule of Findings and Questioned Costs.

The Summary Schedule of Prior Audit Findings is organized based on whether the prior year finding was reportable, material, or other matter. The findings of each classification are categorized as (1) fully corrected, (2) not corrected or partially corrected, (3) corrective action taken differs significantly from corrective action previously reported, or (4) finding no longer valid or does not warrant further action.

Audit Approach

Our audit was conducted in accordance with the Single Audit Act Amendments of 1996, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, *Government Auditing Standards* (also referred to as the Yellow Book), and auditing standards generally accepted in the United States of America. The scope of the statewide single audit for the year ended June 30, 2001 included:

- An audit of the general-purpose financial statements and required supplementary schedules in accordance with auditing standards generally accepted in the United States of America;
- An audit of the supplementary Schedule of Expenditures of Federal Awards in accordance with auditing standards generally accepted in the United States of America;
- An audit of the internal control applicable to the CWD, to the extent necessary to consider and test the internal accounting and administrative control systems as required; and
- A selection and testing of transactions and records relating to each major program to obtain reasonable assurance that the CWD administers its major programs in compliance with laws and regulations for which noncompliance could have a material effect on the allowability of program expenditures or on the general-purpose financial statements of the Commonwealth.

**CABINET FOR WORKFORCE DEVELOPMENT
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

Audit Approach (Continued)

The APA conducted the audit of internal controls, focusing on the following objectives:

- Considering the internal control in order to determine auditing procedures on the general-purpose financial statements of the Commonwealth.
- Determining if the Cabinet for Workforce Development has internal controls to provide reasonable assurance that it is managing the major programs in compliance with applicable laws and regulations.

List of Abbreviations/Acronyms Used in This Report

AFR	Annual Financial Report
APA	Auditor of Public Accounts
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
Commonwealth	Commonwealth of Kentucky
CWD	Cabinet for Workforce Development
DOL	Department of Labor
DTR	Department of Training and Reemployment
ETA	Employment and Training Administration
FAC	Finance and Administration Cabinet
FSR	Financial Status Reports
FUTA	Federal Unemployment Tax Administration
FY	Fiscal Year
GOT	Governor's Office of Technology
JTPA	Job Training Partnership Act
IRS	Internal Revenue Service
KEWES	Kentucky Electronic Workplace for Employment Services
KRC	Kentucky Revenue Cabinet
KRS	Kentucky Revised Statutes
LWIA	Local Workforce Investment Area
MARS	Management Administrative Reporting System
MFE	Modern Front End
N/A	Not Applicable
OMB	Office of Management and Budget
UI	Unemployment Insurance
UPPS	Uniform Personnel Payroll System
U.S.	United States
WFDC	Workforce Development Cabinet
WIA	Workforce Investment Act

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2001**

Federal Grantor			
CFDA #		Expenditures	
Program Title		Cash	Noncash
<u>U.S. Department of Labor</u>			
Direct Programs:			
17.002	Labor Force Statistics	\$ 753,939	
17.203	Labor Certification for Alien Workers	337,593	
17.207	Employment Service	10,641,122	
17.225	Unemployment Insurance (Note 2) (Note 4) (Note 5)	379,762,912	
17.245	Trade Adjustment Assistance – Workers	9,160,937	
17.246	Employment and Training Assistance – Dislocated Workers (Note 5)	281,309	
17.249	Employment Services and Job Training Pilots – Demonstrations and Research (Note 5)	313,776	
17.250	Job Training Partnership Act (Note 5)	476,642	
17.255	Workforce Investment Act (Note 2) (Note 5) (Note 6)	32,073,487	
17.801	Disabled Veterans' Outreach Program	677,325	
17.804	Local Veterans' Employment Representative Program	726,649	
NA	National Occupational Information Coordinating Committee (Note 3)	3,304	
Passed Through From Cabinet for Families and Children:			
17.253	Welfare-to-Work Grants to States and Localities	17,767	
Total U.S. Department of Labor		<u>\$ 435,226,762</u>	

U.S. Department of Education**Direct Programs:**

84.002	Adult Education – State Grant Program (Note 5)	\$ 5,972,833	
84.048	Vocational Education – Basic Grants to States (Note 2) (Note 5)	12,304,395	
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States (Note 2) (Note 5)	40,600,926	
84.128	Rehabilitation Services – Service Projects (Note 5)	77,678	

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2001**

Federal Grantor			
CFDA #		Expenditures	
Program Title		Cash	Noncash
<u>U.S. Department of Education (Continued)</u>			
Direct Programs (Continued):			
84.161	Rehabilitation Services – Client Assistance Program	\$ 128,292	
84.169	Independent Living – State Grants (Note 5)	341,250	
84.177	Rehabilitation Services – Independent Living Services for Older Individuals Who Are Blind (Note 5)	444,614	
84.187	Supported Employment Services for Individuals With Severe Disabilities (Note 5)	574,329	
84.224	Assistive Technology (Note 5)	388,504	
84.243	Tech- Prep Education (Note 5)	1,214,735	
84.265	Rehabilitation Training – State Vocational Rehabilitation Unit In-Service Training	118,162	
84.278	School-to-Work Implementation Grant (Note 5)	107,861	
84.346	Occupational and Employment Information State Grants	30,790	
	Total for U.S. Department of Education	<u>\$ 62,304,369</u>	
<u>U.S. Department of Health and Human Services</u>			
Passed Through From Cabinet for Families and Children:			
93.558	Temporary Assistance for Needy Families (Note 5)	\$ 3,788,784	
Passed Through From Cabinet for Health Services:			
93.958	Block Grants for Community Mental Health Services	75,000	
	<u>Total for U.S. Department of Health and Human Services</u>	<u>\$ 3,863,784</u>	
	TOTAL CABINET FOR WORKFORCE DEVELOPMENT	<u>\$ 501,394,915</u>	

**CABINET FOR WORKFORCE DEVELOPMENT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001**

Note 1 - Purpose of the Schedule and Significant Accounting Policies

Purpose of the Schedule - OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires a Schedule of Expenditures of Federal Awards showing each federal financial assistance program as identified in the *Catalog of Federal Domestic Assistance*.

Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards is presented in accordance with OMB Circular A-133. As defined in the Circular, federal financial assistance “. . . means assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance, but does not include amounts received as reimbursement for services rendered to individuals . . .” It includes awards received directly from federal agencies, or indirectly through other units of state and local governments. Accordingly, the accompanying schedule includes cash federal financial assistance programs. The Cabinet for Workforce Development had no noncash federal financial assistance for the year ended June 30, 2001. Those programs that have not been assigned a catalog number, or for which the catalog number was not available, have been shown either at the bottom of the relevant federal grantor subheading or under the “Other Federal Assistance” subheading.

Reporting Entity - The accompanying schedule includes all federal financial assistance programs administered by the Cabinet for Workforce Development. The Cabinet for Workforce Development is an organizational unit of the Commonwealth as defined by KRS 12.010 and is included in the Commonwealth entity for financial reporting purposes.

Basis of Accounting - The cash expenditures on the accompanying schedule are presented primarily on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed.

KRS 45.229 provides that the Finance and Administration Cabinet may, “. . . for a period of thirty (30) days after the close of any fiscal year, draw warrants against the available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during that year or in fulfillment of contracts properly made during the year, but for no other purpose.” However, there is an exception to the application of KRS 45.229 in that regular payroll expenses incurred during the last pay period of the fiscal year are charged to the next year.

The Commonwealth’s general-purpose financial statements are presented on the modified accrual or accrual basis of accounting, depending on fund type. Therefore, the Schedule of Expenditures of Federal Awards may not be directly traceable to the general-purpose financial statements in all cases.

**CABINET FOR WORKFORCE DEVELOPMENT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

Note 1 - Purpose of the Schedule and Significant Accounting Policies (Continued)

Inter-agency Activity - Certain transactions relating to federal financial assistance may appear in the records of more than one (1) state agency. To avoid the overstatement of federal expenditures, the following policies were adopted for the presentation of the Cabinet for Workforce Development's schedule:

- (a) Federal moneys may be received by one (1) state agency (primary state agency - recipient) and passed through to another state agency (secondary state agency - subrecipient) where the moneys are expended. Except for pass-throughs to state universities as discussed below, this inter-agency transfer activity is reported in the schedule as follows:
- Under the primary state agency, the federal program is reported as a direct program. However, the transfer of money to the secondary state agency is not included in the primary state agency's expenditures.
 - Under the secondary state agency, the federal program is reported as a pass-through program. The expenditure of the transferred moneys is reported in the secondary agency's expenditures.

Because the schedule excludes federal financial assistance related to state universities, when a state agency passes federal money to a state university, this is reported in the schedule as an expenditure of that state agency.

- (b) Federal moneys received by the Cabinet for Workforce Development and used to purchase goods or services from another state agency are reported in the schedule as an expenditure.

Note 2 - Type A Programs

Under the provisions of the OMB Circular A-133, a Type A program for the Commonwealth means any program for which total expenditures of federal awards exceeded \$15 million for FY 01. Clusters are a group of closely related programs sharing common compliance requirements. A cluster of programs shall be considered as one (1) program for determining Type A programs.

**CABINET FOR WORKFORCE DEVELOPMENT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

Note 2 - Type A Programs (Continued)

The Cabinet for Workforce Development had the following cash programs which met the Type A program definition for the year ended June 30, 2001, some of which were administered by more than one (1) state agency. The Type A programs were:

CFDA#	Program Title	Expenditures
17.225	Unemployment Insurance	\$ 379,762,912
17.255	Workforce Investment Act	32,073,487
84.048	Vocational Education – Basic Grants to States	12,304,395 a
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	<u>40,600,926</u>
Total Type A Programs		<u>\$ 464,741,720</u>

a - CFDA 84.048 passed through \$7,182,140 to the Kentucky Department of Education, which expended \$6,808,826 to raise total expenditures over the \$15 million threshold.

Note 3 - National Occupational Information Coordinating Committee (No CFDA)

There is no CFDA number associated with this program. In the past, the program has been reported separately. However, this program is now being reported under the federal grantor, U.S. Department of Labor.

Note 4 - Unemployment Insurance (CFDA # 17.225)

The Commonwealth paid out \$357,646,539 in benefits in FY 01. The amounts shown on the accompanying Schedule of Expenditures of Federal Awards reflect both the amount expended for benefits from the Trust Fund and an additional \$22,116,373 of federal funds expended for administration of the program, resulting in a combined total of \$379,762,912 federal expenditures.

CABINET FOR WORKFORCE DEVELOPMENT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

Note 5 - Subrecipient Activity

A subrecipient is a non-federal entity that expends federal awards received from a pass-through entity to carry out a federal program. The following list summarizes the amount of federal funds sent to subrecipients.

CFDA #	Federal Program Name	Amount Sent
17.225	Unemployment Insurance	\$ 21,778
17.246	Employment and Training Assistance – Dislocated Workers	297,117
17.249	Employment Services and Job Training Pilots - Demonstrations and Research	274,171
17.250	Job Training Partnership Act	457,751
17.255	Workforce Investment Act	29,877,774
84.002	Adult Education – State Grant Program	5,534,613
84.048	Vocational Education – Basic Grants to States	10,466,308
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	333,313
84.128	Rehabilitation Services – Service Projects	77,678
84.169	Independent Living – State Grants	67,671
84.177	Rehabilitation Services – Independent Living Services for Older Individuals who are Blind	7,620
84.187	Supported Employment Services for Individuals With Severe Disabilities	144,193
84.224	Assistive Technology	205,881
84.243	Tech-Prep Education	1,085,364
84.278	School-to-Work Implementation Grant	89,436
93.558	Temporary Assistance for Needy Families	45,005
	Total Amounts Sent to Subrecipients	<u>\$ 48,985,673</u>

Note 6 - Workforce Investment Act (CFDA #17.255)

The Workforce Investment Act program (WIA) has three (3) basic programs, Adult, Youth, and Dislocated Workers. For FY 01, all expenditures were made under WIA - CFDA 17.255. Beginning in FY 02, expenditures will be identified in three (3) separate programs:

- CFDA 17.258 – WIA Adult Program,
- CFDA 17.259 – WIA Youth Activities, and
- CFDA 17.260 – WIA Dislocated Workers.

REPORTS ON COMPLIANCE AND ON INTERNAL CONTROL



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of the General-Purpose Financial Statements
Performed in Accordance With *Government Auditing Standards*

To the People of Kentucky
Honorable Paul E. Patton, Governor
Allen D. Rose, Secretary
Cabinet for Workforce Development

As part of the audit of the general-purpose financial statements of the Commonwealth of Kentucky as of and for the year ended June 30, 2001, we have audited cash, receipts, receivables, expenditures, and payables related to the Division of Unemployment Insurance as part of the Cabinet for Workforce Development, an organizational unit of the Commonwealth as defined by KRS 12.010, and have issued our report thereon dated December 21, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Commonwealth's financial statements are free of material misstatement, we performed tests of the Cabinet for Workforce Development's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Cabinet for Workforce Development's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Cabinet for Workforce Development's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of the General-Purpose Financial Statements
Performed in Accordance With *Government Auditing Standards*
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 01-CWD-1, 01-CWD-2, 01-CWD-3, 01-CWD-4 and 01-CWD-5.

A material weakness is a condition in which the design or operation of one (1) or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 00-CWD-4 and 00-CWD-5 to be a material weaknesses. We also noted an other matter involving the internal control over financial reporting, which we have reported to the management of the Cabinet for Workforce Development and is described in the accompanying schedule of findings and questioned costs of this report.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

December 21, 2001



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

Report on Compliance With Requirements Applicable to Each
Major Program and on Internal Control Over Compliance in Accordance
With OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards

To the People of Kentucky
Honorable Paul E. Patton, Governor
Allen D. Rose, Secretary
Cabinet for Workforce Development

Compliance

As part of the Statewide Single Audit of the Commonwealth of Kentucky, we have audited the compliance of the Cabinet for Workforce Development, an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. The Cabinet for Workforce Development's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Cabinet for Workforce Development's management. Our responsibility is to express an opinion on the Cabinet for Workforce Development's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Cabinet for Workforce Development's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Cabinet for Workforce Development's compliance with those requirements.

Report on Compliance With Requirements Applicable to Each
Major Program and on Internal Control Over Compliance in Accordance
With OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards
(Continued)

As described in item 01-CWD-13 and 01-CWD-14 in the accompanying schedule of findings and questioned costs, the Cabinet for Workforce Development did not comply with requirements regarding subrecipient monitoring that are applicable to its Workforce Investment Act program. Compliance with such requirements is necessary, in our opinion, for the Cabinet for Workforce Development to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Cabinet for Workforce Development complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 01-CWD-11 and 01-CWD-12.

Internal Control Over Compliance

The management of the Cabinet for Workforce Development is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Cabinet for Workforce Development's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Cabinet for Workforce Development's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 01-CWD-07, 01-CWD-08, 01-CWD-09, 01-CWD-010, 01-CWD-11, 01-CWD-12, 01-CWD-13, and 01-CWD-14.

A material weakness is a condition in which the design or operation of one (1) or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Report on Compliance With Requirements Applicable to Each
Major Program and on Internal Control Over Compliance in Accordance With
OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 01-CWD-13 and 01-CWD-14 to be material weaknesses. We also noted an other matter involving the internal control over compliance that we have reported to the management of the Cabinet for Workforce Development and which is described in the accompanying schedule of findings and questioned costs of this report.

Schedule of Expenditures of Federal Awards

We have audited the Commonwealth's general-purpose financial statements as of and for the year ended June 30, 2001, and have issued a report thereon dated December 21, 2001. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements taken as a whole.

The Commonwealth's general-purpose financial statements are prepared on an accrual/modified accrual basis of accounting. However, the schedule of expenditures of federal awards of the Cabinet for Workforce Development is prepared on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed. Accordingly, the schedule of expenditures of federal awards is not intended to present the expenditures of federal awards in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the effect of the application of a different basis of accounting as explained above, the schedule of expenditures of federal awards of the Cabinet for Workforce Development is fairly stated, in all material respects, in relation to the Commonwealth's general-purpose financial statements taken as a whole.

Report on Compliance With Requirements Applicable to Each
Major Program and on Internal Control Over Compliance in Accordance With
OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards
(Continued)

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Schedule of Expenditure of Federal Awards
December 21, 2001

April 30, 2002

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001**

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statement Accounts

Financial Statement Accounts: We issued an unqualified opinion on the Commonwealth's general-purpose financial statements, which included the Cabinet for Workforce Development, as of and for the year ended June 30, 2001.

Internal Control Over Financial Reporting: Our consideration of the Cabinet for Workforce Development's internal control over financial reporting disclosed five (5) reportable conditions. We consider two (2) of these to be material weaknesses. The reportable conditions, which were disclosed during our audit of the Commonwealth's general-purpose financial statements, are applicable to the Cabinet for Workforce Development's Department of Employment Services and Department of Training and Reemployment. Our audit also disclosed an other matter relating to the internal control over financial reporting for the Cabinet for Workforce Development.

The reportable conditions, material weaknesses, and other matter are presented in detail in Section 2 - Financial Statement Findings of the Schedule of Findings and Questioned Costs.

Compliance: The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Federal Awards and Schedule of Expenditures of Federal Awards

Compliance: We issued a qualified opinion on the Cabinet's compliance with the requirements applicable to the WIA program and an unqualified opinion on the remaining major federal programs. The results of our auditing procedures disclosed four (4) instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133. We consider two (2) of these to be material. These findings are applicable to the Department of Employment Services and Department of Training and Reemployment.

The findings relative to compliance with requirements applicable to each of its major federal programs are presented in Section 3 - Federal Awards Findings and Questioned Costs of the Schedule of Findings and Questioned Costs.

Internal Control Over Compliance: Our consideration of the Cabinet for Workforce Development's internal control over compliance disclosed eight (8) reportable conditions. We consider two (2) of these to be material. The reportable conditions, which were disclosed during our audit, are applicable to the Department of Employment Services and Department of Training and Reemployment. Our audit also disclosed an other matter relating to the internal control over compliance for the Cabinet for Workforce Development. The reportable conditions and other matter relative to the Cabinet's internal control over compliance are presented in Section 3 - Federal Award Findings and Questioned Costs of the Schedule of Findings and Questioned Costs.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Federal Awards and Schedule of Expenditures of Federal Awards (Continued)

Schedule of Expenditures of Federal Awards: We issued a qualified opinion on the Schedule of Expenditures of Federal Awards because the schedule was presented on the basis of accounting that is not in conformance with accounting principles generally accepted in the United States of America as described in Note 1 of the schedule. The opinion was issued in relation to the Commonwealth's general-purpose financial statements taken as a whole.

Identification of Major Programs Audited

OMB Circular A-133 defines a major program as "a Federal program determined by the auditor to be a major program in accordance with section __.520 or a program identified as a major program by the Federal awarding agency or pass-through entity in accordance with section __.215(c)." Section __.520 states, "[t]he auditor shall use a risk-based approach to determine which Federal programs are major programs." The following is a list of major Type A program audited:

CFDA#	Program Title	Expenditures
17.225	Unemployment Insurance	\$ 379,762,912
17.255	Workforce Investment Act	<u>32,073,487</u>
	Total Type A Programs Audited	<u>\$ 411,836,399</u>

The following is a list of Type B programs audited as major programs:

CFDA#	Program Title	Expenditures
17.245	Trade Adjustment Assistance - Workers	\$ 9,160,937
17.246	Employment and Training Assistance – Dislocated Workers	281,309a
17.250	Job Training Partnership Act	476,642a
84.002	Adult Education – State Grant Program	<u>5,972,833</u>
	Total Type B Programs Audited	<u>\$ 15,891,721</u>
	Total Major Programs Audited	<u>\$ 427,728,120</u>

Identified Cluster includes:

a – Job Training Partnership Act Cluster

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Dollar Threshold Used to Distinguish Between Type A and Type B Programs

The maximum dollar threshold used to distinguish between Type A and Type B programs was \$15,000,000.

Auditee Risk

The Commonwealth did not qualify as a low-risk auditee.

SECTION 2 - FINANCIAL STATEMENT FINDINGS

***Reportable Conditions Relating to Internal Controls and/or Reportable
Instances of Noncompliance***

**FINDING 01-CWD-1: The Division Of Unemployment Insurance Did Not Report
Deferred Revenues**

The agency did not report an amount for deferred revenue on the AFR-32, Revenue Recognition Recap form. Deferred revenues are employers' benefits received that will be paid in future periods.

In preparation of the Commonwealth's CAFR report, Finance and Administration Cabinet (FAC) recorded deferred revenue for the Cabinet for Workforce Development (CWD). However, if FAC did not properly record deferred revenue, there would have been an overstatement of accounts receivable and an understatement of deferred revenue on the agency's closing package forms for Unemployment Compensation.

Proper internal controls dictate deferred revenue is properly classified as a liability for amount received, not earned as of June 30.

Recommendation

The agency should record deferred revenue from revenue earned not received as of June 30 to amount received not earned as of June 30 on the AFR-32, Revenue Recognition Recap form. To properly classify deferred revenue the agency should record any non-operating and/or other revenue over 30 days less the allowance for uncollectible amount in the deferred revenue column on the AFR-32 form.

Management's Response and Corrective Action Plan

The agency agrees with the auditor's recommendation.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

FINDING 01-CWD-02: The Division Of Unemployment Insurance Allowance For Uncollectible Accounts Was Not Updated For Current Year Actions

The “Allowance for Uncollectible” for tax collections on the FAC AFR-30 and AFR-32 closing package forms was not changed from the prior year. The auditor spoke with the Unemployment Insurance (UI) Tax Branch Manager, who responded that due to staff shortages UI was unable to process any write-offs of delinquent accounts for tax collections.

When the “Allowance for Uncollectible” account is not written off, the accounts receivable balance tends to be overstated.

Proper accounting procedures dictate receivables be evaluated periodically to determine the likelihood of collection and an amount that is likely to not be collected be written off. KRS 341.300 (4) states:

an action for the recovery of contributions, interest or penalties under this section shall be barred and any lien therefore shall be cancelled and extinguished unless collected or suit for collection has been filed within five (5) years from the due date of such contributions, except in the case of the filing of a false or fraudulent report the contributions due shall not be barred and may at any time be collected by the methods set out in this chapter, including action in a court of competent jurisdiction.

Recommendation

The agency should:

- Establish a procedure to estimate a reasonable allowance for uncollectible accounts;
- Age accounts so that accounts over five (5) years and not in litigation are written off in a timely manner; and
- Implement procedures to ensure write-offs of uncollectibles are properly authorized.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

FINDING 01-CWD-2: The Division Of Unemployment Insurance Allowance For Uncollectible Accounts Was Not Updated For Current Year Actions (Continued)

Management's Response and Corrective Action Plan

Previously this agency has given an estimated uncollectable allowance based on previous history of uncollectable writeoffs. The last estimate given was an average of 1996, 1997, and 1998 writeoffs. This figure was \$1,414,907 per year. Knowing that there are many factors that contribute to the receivable figure, such as rates, collection efforts, and economy this estimate is hard to secure unless we use previous history. We could possibly request additional programming to determine all accounts that appear to be uncollectable and then those that would age into that category within the next year. This kind of report should be available with the new KEWES [Kentucky Electronic Workplace for Employment Services] process described below.

- In the collection piece of KEWES there is an automated process to identify and submit for processing, all accounts that would fall into the category of uncollectable according to our statutes and policies. This process would submit all accounts, as they meet certain requirements, to the manager for authorization to be declared uncollectable. If the manager authorizes, the KEWES system will automatically make the required changes to the account to indicate the uncollectable status. This process will greatly streamline what is currently required.*
- Current staffing continues to be the reason for not addressing the uncollectable backlog.*
- Our current process for declaring accounts uncollectable calls for two (2) levels of authorization (management) on any account owing over \$100. Accounts under \$100 can be declared uncollectable with one (1) authorization. The KEWES process will require one (1) authorization.*

FINDING 01-CWD-3: The Cabinet For Workforce Development Should Improve Local Area Network Server Security And Consistently Apply Policies To All Servers

CWD should improve security of the LAN servers. Additionally, CWD should consistently apply security policies to all NT servers.

We reviewed the security for specific servers that were identified within two (2) critical domains for CWD. One (1) of these domains is managed by the technical support staff in the Division of Computer Services, and the other is managed by the Management

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

FINDING 01-CWD-3: The Cabinet For Workforce Development Should Improve Local Area Network Server Security And Consistently Apply Policies To All Servers (Continued)

Information System branch in the Division of Administration and Financial Management. Using general scanning tools we queried these domains to identify all Primary Domain Controllers, Backup Domain Controllers, and Structured Query Language servers. We then reviewed information divulged on specific servers within these domains to determine the established password policies and specific services that might be available on these systems.

Upon review of the password policies identified, we determined that the administrative password policies established were not consistently followed. Additionally, a vulnerability scan was performed on these servers that identified security issues concerning the available web server software and FTP services running on the systems. It was noted that some versions of the web server software could allow a remote attacker to run commands on a web server remotely and gain control of the computer. Also, older versions of FTP software were identified, which could allow attackers to remotely initiate a denial of service condition. Technical support staff of the CWD should ensure that upgrades and patches have been installed or otherwise remove these services.

To help ensure the security of a network, it is necessary for a strong password policy to be developed and implemented on all servers within the network. If servers within a network are not sufficiently secured, the network could be compromised through one (1) of these more vulnerable paths. To ensure adequate security, all software should be kept updated.

Recommendation

We recommend CWD review all servers within the agency-owned domains to ensure that the password policy established on all servers complies with the guidelines specified by the agency. Further, we suggest that all services active on the CWD servers be reviewed to ensure the most recent upgrades and patches have been installed.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

FINDING 01-CWD-3: The Cabinet For Workforce Development Should Improve Local Area Network Server Security And Consistently Apply Policies To All Servers (Continued)

Management's Response and Corrective Action Plan

*In response to the state auditor findings of December 18, 2001 the following improvements have been made to the **WFDESNT Domain**, which includes two (2) servers:*

- *These servers have been upgraded with current patches or software upgrades as needed to improve security for this domain.*
- *IIS was removed from this domain on January 11, 2002.*
- *The Account policies applicable to these servers have been revised to include password expiration limits.*

In addition, it is the intent of the Cabinet to merge this domain with WFDCNT for centralized control.

In response to the state auditor findings, the following improvements have been made to the WFDCNT Domain:

- *Listed users on the domain that had passwords not expiring have been updated to include a required expiration.*
- *The account policies for the servers in this domain have been revised to include password expiration limits.*
- *Administrator password has been changed and is not being used.*
- *Theses servers have been upgraded with current patches or software upgrades as needed to improve security for this domain.*

In addition the Cabinet has purchased equipment to install two (2) firewalls.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

Material Weaknesses and/or Material Instances of Noncompliance:

FINDING 01-CWD-4: The Division Of Unemployment Insurance Did Not Have A Reliable Trial Balance

The trial balance for UI tax collections has not been reconciled for FY 01. The agency was not able to provide the documentation to support the amounts recorded on the FAC AFR-30 and AFR-32 forms of the closing package for accounts receivable because of this.

UI could not provide a trial balance, aging report, or list of balances by employer account to perform any testing to determine whether the Tax Branch accounts receivable balances were accurate. In addition, we could not rely on the controls of the UI computer system to provide accurate reports related to employer tax including a trial balance of delinquent contributions.

Appropriate accounting procedures would ensure outputs of a computer system accurately reflect inputs and that system reports be verified prior to inclusion in external reports such as the FAC AFR-30 and AFR-32 closing package forms.

Recommendation

The agency should produce a reconciled trial balance so that amounts recorded in the closing package are accurate. Corrections to computer systems and additional system controls must be implemented to prevent the submission of information from an unverified trial balance.

Management's Response and Corrective Action Plan

The agency agrees with the auditors' recommendation and the trial balances will be up to date before next audit. The recommendation to request GOT to create a report of accounts receivable balances by employer has been requested.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

FINDING 01-CWD-5: The Division Of Unemployment Insurance Continues To Materially Misrepresent Its Corrective Action Plan To Provide A Trial Balance For Employer's Tax Collections

This is the third consecutive year in which UI has not implemented its corrective action plan, therefore materially misrepresenting the stated corrective action. The trial balance for UI has not been reconciled since FY 99. Due to this weakness the accounts receivable balance could have been materially misstated since FY 99. In addition, the internal controls of the system do not provide accurate reports related to employer tax including a trial balance or delinquent contributions.

UI could not provide us a trial balance, aging report, or a list of balances by employer account to verify accurate balances.

Management has not implemented its corrective action plan. Management has stated since FY 99 they will eliminate the current trial balance process and provide complete, timely and accurate report information. The agency employed a former Trust Fund Coordinator to assist in the reconciliation of all outstanding trial balances in FY 00. The new coordinator has made recommendations in FY 00 that were not followed up in FY 01. Management stated that implementing KEWES was one of the main criteria for the trial balance not being reconciled as of FY 01. However, the process has not improved.

Recommendation

The agency should adhere to its corrective action plan submitted to the auditors. Management should monitor the process and update as needed. The agency should produce a reconciled trial balance so that the amounts recorded in the closing package can be tested for reasonableness and accuracy. Corrections to computer systems and additional system controls must be implemented to prevent the submission of an unverified trial balance.

Management's Response and Corrective Action Plan

The new Trial Balance process is now in place and efforts are being made to work through and verify the trial balance for each processing period until data is current. This has to be completed in order to run 2002 rates and federal certification.

Beginning with the 1-2002 quarterly reports, there should be no problem completing each trial balance in a timely manner.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance:

FINDING 01-CWD-6: The Kentucky Department Of Revenue Is Not Depositing Unemployment Insurance Tax Receipts Timely

During tests of Unemployment Insurance Tax Employer Receipts, auditors found 38 of 42 receipts were not processed timely. For the purposes of this test, auditors considered timely receipt to be two (2) days following processing of the documents via the Modern Front End (MFE) system by the Kentucky Revenue Cabinet (KRC). The average time between MFE processing and deposit was five (5) days and several sample items processed May 3 were deposited seven (7) days later on May 10.

Deposits not made timely reduce the interest earned thereon. Also, the possibility of theft or misplacement of money collected increases. To reduce the risk of theft and misplacement security measures must be increased to ensure the safekeeping of deposits prior to deposit, which results in increased costs to the state.

KRS 41.070 (1) dictates “all public money and dues to the state shall be deposited in state depositories in the most prompt and cost-efficient manner available.”

Proper control dictates that receipts are deposited timely to ensure maximum interest earnings possible on public funds. In addition, prompt deposit of funds reduces the risk of loss and expense of providing security for deposits over a lengthy period of time.

Recommendation

We recommend the agency work with KRC, which processes UI tax receipts to improve procedures so that deposits can be made consistently on a timely basis with the state depository. The MFE scanning technologies currently used may make it possible for deposits to be made prior to “balancing” UI-3 reports through MFE edits.

Management’s Response and Corrective Action Plan

The Agency does agree with the auditors finding after reviewing the auditors' workpapers. We will work with the KRC, which processes UI Tax Receipts to improve procedures so that deposits can be made consistently on a timely basis with the State Depository.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

***Reportable Conditions Relating to Internal Control and/or Reportable
Instances of Noncompliance:***

**FINDING 01-CWD-7: The Department For Training And Reemployment Did Not
Reconcile Financial Status Reports To MARS**

Federal Program: CFDA 17.255 – Workforce Investment Act

Federal Agency: U.S. Department of Labor

Pass-Through Entity: Not Applicable

Compliance Area: Reporting

Amount of Questioned Costs: None

Financial Status Reports (FSR) for Local Administration, Local Adult, Local Dislocated Worker, and Local Youth programs cannot be traced to MARS. These FSRs agree to Department for Training and Reemployment's (DTR) grant accounting system, which is compiled from Local Workforce Investment Areas (LWIA) expenditure reports. The expenditure data recorded in MARS reflects only amounts reimbursed to the LWIAs and has not been updated to reflect actual expenditures in the appropriate categories - administration, adult, dislocated worker, or youth programs.

Since WIA expenditures of LWIAs have not been updated in MARS to accurately reflect actual expenditures by the LWIAs the users of the FSRs do not get an accurate picture of activities occurring in WIA programs.

Proper internal controls dictate the agency maintain adequate supporting documentation for reports submitted to the federal government. MARS is the official record of expenditures. Further, agency procedures indicate that this update of MARS should occur at least quarterly.

Recommendation

We recommend DTR follow procedures to comply with the quarterly update of MARS. DTR should fully utilize the capabilities of MARS to track grant expenditures so that the state's official accounting system fully supports expenditures as submitted in federal reports. Journal vouchers could be used to "move" expenditures from the wire-transfer activity code or object code to a separate category for the expenditures as reported by LWIA expenditure reports on a quarterly basis.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 01-CWD-7: The Department For Training And Reemployment Did Not Reconcile Financial Status Reports To MARS (Continued)

Management's Response and Corrective Action Plan

Although MARS cannot fully reflect actual expenditures in the appropriate categories, DTR has already implemented corrective action to improve the process. Currently, Youth, Adult, and Dislocated Worker funds are assigned separate project numbers and corrections are made quarterly to move expenditures to the appropriate project. Local areas draw their funds under the appropriate categories and corrections are made quarterly by a WIA Fiscal Officer to reflect the total reported expenditures.

DTR agrees that delineating expenditures by administration and program as well as Statewide Administration and Rapid Response could more accurately reflect actual expenditures. A WIA Fiscal Officer will investigate this possibility with Fiscal Services to establish the most effective means of implementing this change by May 31, 2002. The system will not provide a completely accurate picture since the Local Areas report accrued expenditures and MARS only reflects reimbursements, but the reported expenditures will be more clearly delineated.

FINDING 01-CWD-8: The Department For Training And Reemployment Did Not Reconcile Subrecipient Reports

Federal Program: CFDA 17.255 – Workforce Investment Act

Federal Agency: U.S. Department of Labor

Pass-Through Entity: Not Applicable

Compliance Area: Reporting

Amount of Questioned Costs: None

While conducting tests of subrecipient cash reconciliation reports, the auditor found three (3) instances where reported expenditure or drawdown amounts did not trace to LWIA supporting expenditure documentation for the reconciliation or DTR's drawdown record. It did not appear that the DTR-38 had been reviewed for errors. In addition, the auditor repeatedly found instances where the subrecipient had issued multiple "corrected" or final reports for a specific reporting period.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 01-CWD-8: The Department For Training And Reemployment Did Not Reconcile Subrecipient Reports (Continued)

Failure to reconcile subrecipient invoices on a timely basis could result in undetected errors and potentially the issuance of inaccurate federal reports and reimbursement of incorrect or unsubstantiated amounts. In addition, this could prevent the agency from reconciling subrecipient audited financials to the agency's records as required by OMB Circular A-133.

The submission of numerous reports for an accounting or reporting period can result in confusion and unnecessarily complicate the process of reconciling expenditure reports.

Proper internal control dictates that subrecipient reports should be reviewed for accuracy and where possible amounts traced to supporting documentation to detect errors and prevent inaccurate information from being used to compile federal reports.

Recommendation

We recommend DTR strengthen internal controls over subrecipient monitoring to ensure that reconciliations are properly reviewed for errors and corrections are properly documented.

We also recommend DTR discourage the submission of multiple reports and instead require subrecipients to incorporate changes into subsequent expenditure reports. While it may be necessary for fourth quarter reports to be resubmitted due to audit findings, etc., it should be possible to make other changes in subsequent reports.

Management's Response and Corrective Action Plan

DTR has already addressed this issue and implemented the following corrective actions:

- 1. LWIA fiscal staff have been instructed to avoid filing amended financial reports whenever possible unless the amendments are the result of audit corrections.*
- 2. Upon receipt of the DTR-38 an Internal Policy Analyst reviews the expenditure information to verify that the individual grant reports support the DTR-38.*
- 3. A WIA Fiscal Officer reviews the drawdown information to verify that it reflects the information in DTR internal records and works with LWIA staff to correct any discrepancies.*
- 4. DTR fiscal staff provides technical assistance to LWIA's to improve the accuracy and consistency of information reported on the DTR-38.*

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 01-CWD-9: The Department For Training And Reemployment Did Not Monitor Timesheets To Ensure The Correct Project Code Was Being Charged

Federal Program: CFDA 17.255 – Workforce Investment Act

Federal Agency: U.S. Department of Labor

Pass-Through Entity: Not Applicable

Compliance Area: Allowable Costs

Amount of Questioned Costs: None

Grant project codes on some timesheets tested did not agree with the Uniform Personnel and Payroll System (UPPS) reports. Of the 28 employees charging time to WIA the auditor selected 15 employees for testing. Various pay periods were observed for the employees chosen and the auditor found four (4) deficiencies during testing.

WIA has six (6) grants open. There were no indications from our testing these grants were overcharged due to the improper recording of project codes on timesheets. However, if the wrong project is coded it is possible to over-expend or charge to a closed grant.

Per OMB Circular A-87:

[c]harges to federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit . . . Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification . . . Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports . . .

These reports must account for the total activity for which each employee is compensated.

Recommendation

The project code on each timesheet should be updated each pay period so that each grant is properly charged. This will also ensure the payroll administrator will record the correct payroll data into the system.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 01-CWD-9: The Department For Training And Reemployment Did Not Monitor Timesheets To Ensure The Correct Project Code Was Being Charged (Continued)

Management's Response and Corrective Action Plan

We agree with the recommendation for improvement. In the future we will pay closer attention to the project codes for grants on timesheets to ensure that they agree with UPPS reports and that each grant is properly charged.

FINDING 01-CWD-10: The Division Of Unemployment Insurance Is Not Reconciling Accounts Receivable To Ensure Federal Reports Are Accurate

Federal Program: CFDA 17.225 – Unemployment Insurance

Federal Agency: U.S. Department of Labor

Pass-Through Entity: Not Applicable

Compliance Area: Reporting

Amount of Questioned Costs: None

The Employment and Training Administration (ETA) 581 form is inaccurately stated due to double adjustments made from noncompliance with agency procedures. The agency is not complying with the set procedures to audit the processed payments before making adjustments. Tax data is entered from the employer quarterly reports. During the process of auditing these reports, the agency will determine that the information posted to the accounting system in error. The erroneous data will be deleted and the correct information entered. These transactions are not reflected in the accounts receivable activity report, which is the source document for the ETA 581. Auditing of reports is not being completed prior to the end of the quarter when the source document is generated. Thus, the accounts receivable activity report used as a source document for the ETA 581 is not a reliable indicator of actual receivables.

The magnitude of this discrepancy could not be calculated due to the fact that the actual population of double adjustments could not be determined. It is impossible to ascertain which records have been double adjusted and which records have not. Thus it is impossible to state whether agency data is accurate or not for reporting.

Source data for the federal reports is inaccurate, due to unreliable agency reports. Therefore, it is impossible for the federal government to have an accurate figure of what employers actually pay into the Kentucky Unemployment Insurance program.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 01-CWD-10: The Division Of Unemployment Insurance Is Not Reconciling Accounts Receivable To Ensure Federal Reports Are Accurate (Continued)

Proper internal controls dictate that accurate information should be presented when preparing and transmitting federal reports. Thus, reports can be supported by valid and accurate supporting documentation.

Recommendation

We recommend controls be implemented to ensure double adjustments are not recorded. The agency needs to ensure audits are performed in a timely manner to prevent duplication of adjustments. It is understood that the agency has made progress to solve this problem and we recommend the agency continue with its corrective action plan.

Management's Response and Corrective Action Plan

The Department acknowledges that the findings are correct. The adjustments are being made on reports that have not been audited. The system will be modified so that no adjustments can be made until the quarterly report has been audited. Employees will be unable to call up any report until the audit is completed. This will correct the adjustment problem. The Department also acknowledges that the report audit process is not being completed prior to the end of the quarter when the source document is generated. To ensure that it will not reoccur, the Department will dedicate sufficient report audit staff to complete a timely audit. Further, the Department will ensure that the accounts receivable activity will be accurately reported hereafter. The Department will be in full compliance by the next audit cycle in January 2003.

FINDING 01-CWD-11: The Division Of Unemployment Insurance Has Not Performed The 1999 Certification Of Employer Contributions

Federal Program: CFDA 17.225 – Unemployment Insurance

Federal Agency: U.S. Department of Labor

Pass-Through Entity: Not Applicable

Compliance Area: Reporting

Amount of Questioned Costs: None

Each state is required to annually certify for each taxpayer (employer) the total amount of contributions required to be paid for the calendar year and the amounts and dates of such payments. This is done by each state performing a match of employer tax payments with credit claimed for these payments on the employer's Internal Revenue Service (IRS) 940 Federal Unemployment Tax Administration (FUTA) tax form.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 01-CWD-11: The Division Of Unemployment Insurance Has Not Performed The 1999 Certification Of Employer Contributions

The IRS is not able to provide information to the Department of Unemployment Insurance (UI) until September or November of the following year. So, for FY 01, UI should be certifying for calendar year 1999. We requested the trial balance of employer's accounts and the 1999 certification. None of this documentation was provided to us because it was still being processed. Therefore, the annual IRS 940 FUTA certification (match) has not been performed for 1999.

The state is not able to report to each taxpayer on a timely basis the total amount of contributions so that they can be allowed the credit against the FUTA tax.

26 CFR section 31.3302(a)-3(a) requires the state to provide this annually. Also proper internal controls dictate that procedures should be in place so program requirements can be met on a timely basis.

Recommendation

We recommend that controls be implemented to ensure the annual IRS FUTA match is performed.

Management's Response and Corrective Action Plan

The Agency agrees with the auditor's recommendations and the Federal Certification for 2003 will be timely. The new Trial Balance process is now in place and the trial balances for 2000 have been completed. The certification is currently being run for 1999 that should have been completed by Feb. 28, 2001. The IRS is aware of the problems the Commonwealth has encountered. We should not have future problems in running the Federal Certification in a timely manner.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 01-CWD-12: The Department For Training And Reemployment Did Not Correctly Report Some Amounts For JTPA Closeout

Federal Program: CFDA 17.250 – Job Training Partnership Act

Federal Agency: U.S. Department of Labor

Pass-Through Entity: Not Applicable

Compliance Area: Reporting

Amount of Questioned Costs: None

During tests of Job Training Partnership Act (JTPA) closeout reports, we found the following amounts were incorrectly reported on the Job Training Partnership Act Quarterly Status Report (JQSR):

- PY 1998 JQSR Incentive Funds Expended (Non-Additive) (line 24)
- PY 1998 JQSR Title II-C (lines 19-23) Amounts reported are not supported by the Service Delivery Area (SDA) expenditure spreadsheets.

DTR has not developed written procedures for the preparation, review, and approval of federal reports. As a result, it is difficult for someone other than the preparer to recreate the amounts reported. In addition, errors that could be detected in the review process are not corrected before submission.

We were unable to verify the accuracy of the above amounts submitted to the United States Department of Labor (DOL) in the JTPA closeout reports. Also, DOL is not able to determine if JTPA was closed out properly.

The agency's lack of written policies for the preparation, review, and approval of federal reports resulted in inaccuracies in the JTPA report submitted to the DOL.

Good internal control dictates that the accounting records support federal reports and written procedures be fully utilized.

Recommendation

We recommend the following:

- Reports be corrected as necessary and be available for review with adequate supporting documentation in subsequent audits.
- Development of written procedures for the preparation, review, and approval of federal reports.
- Supporting documentation for reports be readily available and adequately referenced.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 01-CWD-12: The Department For Training And Reemployment Did Not Correctly Report Some Amounts For JTPA Closeout (Continued)

Management's Response and Corrective Action Plan

DTR agrees with the recommendations for improvement and has already implemented procedures to correct this situation. Federal report information is prepared by each member of the fiscal staff and reviewed for accuracy prior to submission. The WIA Fiscal Officer is ultimately responsible for submission of the reports and the inclusion of supporting documentation with each report. The reports identified in this RCW will be amended and filed before May 31, 2002 and maintained with the appropriate supporting documentation. Written procedures for the preparation and submission of federal reports will be completed and implemented prior to May 31, 2002.

Material Weaknesses and/or Material Instances of Noncompliance:

FINDING 01-CWD-13: The Department For Training And Reemployment Did Not Follow Up On Subrecipient Findings In A Timely Manner

Federal Program: CFDA 17.255 – Workforce Investment Act

Federal Agency: U.S. Department of Labor

Pass-Through Entity: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: None

During the FY 01 audit, we tested the audit log maintained by the DTR to track subrecipient monitoring related to the required audits of subrecipients. During this review, we noted several incidences, in which DTR did not obtain, review, reconcile, and resolve LWIA audits in a timely manner.

Furthermore, we noted that this is a repeat finding, which has been noted since the FY 96 audit of the JTPA program as an other matter comment and was upgraded to a reportable condition in FY 99. The agency's prior year corrective action plan indicated that the agency would take the necessary steps to strengthen controls over monitoring of subrecipient audits. However, our testing indicated that most deficiencies within the audit monitoring system had not been corrected and the plan had not been implemented.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 01-CWD-13: The Department For Training And Reemployment Did Not Follow Up On Subrecipient Findings In A Timely Manner (Continued)

We noted the following deficiencies:

- Four (4) incidences in which DTR did not obtain the LWIA audit reports in a timely manner. The receipt of the audit reports in an untimely manner delays the entire resolution process. It also increases the likelihood that subrecipient weaknesses noted in the audit continue for a longer period of time since they are not being addressed.
- Three (3) incidences in which DTR did not resolve subrecipients' audit report findings in a timely manner. According to the Agency Guidelines and the federal regulations for WIA, the agency has 180 days to resolve these matters. Again, untimely resolution of audit findings increases the likelihood that subrecipients' weaknesses continue for a longer period of time since they are not being addressed.
- Two (2) incidences in which DTR did not receive a cognizant agency letter determining whether the subrecipient audits were in compliance with OMB Circular A-133. The agency did complete a technical review of eight (8) of the 10 subrecipient FY 00 audits, which APA auditors have accepted as satisfying this requirement. However, two (2) technical reviews were not documented. Adequate review of the audit is necessary to obtain any other assurance that subrecipients complied with OMB Circular A-133, as required by the regulations. We noted that DTR completed the technical reviews using the "SCX-18: Single Audit Reports Checklist" as recommended in the prior year for those reviews completed.
- Ten incidences in which the agency's records were not reconciled to the LWIA's audited financial statements. This should be performed to ensure the audited financial statements agree with the amounts reported in the agency's grant accounting records. Unreconciled financial statements lead to the potential for federal reporting that does not agree to the financial statements on which an opinion has been given.
- Deficiencies noted during the FY 00 audit were not corrected.

Without timely monitoring of subrecipient audits the funding agency cannot determine whether the subrecipient has audit findings or questioned costs. The funding agent should be aware of any problems found by the subrecipient's auditors and see that the corrective action plans are implemented.

OMB Circular A-133 states that the funding agency should be sent a copy of the audit report "within the *earlier* of 30 days after [the subrecipient's] receipt of the auditor's report(s), or 9 months after the end of the audit period." This requirement is also outlined in DTR's Audit Resolution Guide. This requirement is in effect for fiscal years beginning after June 30, 1998; previously the requirement was 13 months. [OMB Circular A-133 Subpart B, Sec 235 (c) (1)]

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 01-CWD-13: The Department For Training And Reemployment Did Not Follow Up On Subrecipient Findings In A Timely Manner (Continued)

The WIA regulations state: “The Governor is responsible for resolving findings that arise from the State’s monitoring reviews, investigations and audits (including OMB Circular A-133 audits) of subrecipients.” [20 CFR 667.500 (a) (1) and (2)]

OMB Circular A-133 states the pass-through entity should “consider whether subrecipient audits necessitate adjustment of the pass-through entity’s own records.” [OMB Circular A-133; Subpart D Sec 400 (d) (6)]

Further, OMB Circular A-133 states that pass-through entities are responsible for issuing a management decision on audit findings of subrecipients within six (6) months after receipt of the audit finding. [OMB Circular A-133; Subpart D Sec 400 (d) (5)] If corrective action has not been completed at that time, a timetable for follow-up may be included. [OMB Circular A-133; Subpart D Sec 405 (a)]

Recommendation

We recommend CWD and DTR implement procedures to ensure compliance with the WIA regulations, OMB Circular A-133 and the DTR Guidelines regarding audit resolutions of subrecipients.

Management’s Response and Corrective Action Plan

DTR agrees that the corrective action plans submitted in regard to the finding on the subrecipient audit reports has not been fully implemented since FY 96.

The primary reason that full implementation has not occurred is the lack of staff resources available to perform this function. This function is the current responsibility of staff assigned to the Fiscal Section in the Financial and Program Operations Branch. This Section’s main duties and responsibilities are composed of grant management, agency accounting, federal reporting and contract payments. The monitoring of subrecipient audit reports function received a limited amount of staff time due to the critical nature of the section’s main duties.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 01-CWD-13: The Department For Training And Reemployment Did Not Follow Up On Subrecipient Findings In A Timely Manner (Continued)

Management's Response and Corrective Action Plan (Continued)

To remedy this situation, DTR has reassigned the duties and responsibilities for monitoring of subrecipient audits to the Program Compliance and Support Branch. This reassignment will ensure that additional staff resources are available to perform the function. The Financial and Program Operations Branch will provide technical assistance to the other branch by training staff to perform the review function and assisting with the reconciliation of the audited financial statements to DTR records. We expect this training to be completed by the end of June 2002. This transition of duties and responsibilities will begin with the Fiscal Year 2001 subrecipient audit reports.

DTR will also initiate an effort to reconcile the LWIA audit financial statements to DTR records beginning with FY 2001 and going back to FY 96, the initial period cited by the auditors as to when the problem began.

FINDING 01-CWD-14: The Department For Training And Reemployment Has Not Fully Implemented Its Corrective Action Plan To Monitor Subrecipient Reports

Federal Program: CFDA 17.255 – Workforce Investment Act

Federal Agency: U.S. Department of Labor

Pass-Through Entity: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: None

DTR has failed to implement the corrective action plans submitted in each of the past five (5) years with regards to monitoring subrecipient audit reports. The agency has repeatedly failed to fully implement the corrective action plans submitted. While there have been improvements in the number of exceptions, we still conclude that the agency's corrective action plan for fiscal year ended June 30, 2000, for subrecipient monitoring of LWIA audit reports is materially misrepresented.

Without timely monitoring of subrecipient audits, the funding agency cannot determine whether the subrecipient has audit findings or questioned costs. The funding agent should be aware of any problems found by the subrecipient's auditors and see that the corrective action plans are implemented.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 01-CWD-14: The Department For Training And Reemployment Has Not Fully Implemented Its Corrective Action Plan To Monitor Subrecipient Reports (Continued)

OMB Circular A-133 states that the funding agency should be sent a copy of the audit report “within the *earlier* of 30 days after [the subrecipient’s] receipt of the auditor’s report(s), or 9 months after the end of the audit period.” This requirement is also outlined in DTR’s Audit Resolution Guide. This requirement is in effect for fiscal years beginning after June 30, 1998; previously the requirement was 13 months [OMB Circular A-133 Subpart B, Sec 235 (c) (1)].

The WIA regulations state: “The Governor is responsible for resolving findings that arise from the State’s monitoring reviews, investigations and audits (including OMB Circular A-133 audits) of subrecipients.” [20 CFR 667.500 (a) (1) and (2)].

OMB Circular A-133 states that the pass-through entity should consider whether subrecipient audits necessitate adjustment of the pass-through entity’s own records. [OMB Circular A-133; Subpart D Sec 400 (d) (6).]

Further, OMB Circular A-133 states that pass-through entities are responsible for issuing a management decision on audit findings of subrecipients within six (6) months after receipt of the audit finding. [OMB Circular A-133; Subpart D Sec 400 (d) (5)] If corrective action has not been completed at that time, a timetable for follow-up may be included [OMB Circular A-133; Subpart D Sec 405 (a)].

Recommendation

We recommend CWD and DTR implement procedures to ensure compliance with the WIA regulations, OMB Circular A-133 and the DTR Guidelines regarding audit resolutions of subrecipients.

Management’s Response and Corrective Action Plan

See the response at 01-CWD-13.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 01-CWD-15: The Department For Training And Reemployment Did Not Provide Supporting Documentation For Parts Of The Performance Report

Federal Program: 17.255 - Workforce Investment Act

Federal Agency: Department of Labor

Pass-Through Entity: Not Applicable

Compliance Area: Reporting

Amount of Questioned Costs: None

During our compliance testing related to WIA, we examined the ETA-9090 WIA Quarterly Summary Report for the 3rd Quarter Ending March 31, 2001. Supporting documentation could not be tested to ensure that the Department for Training and Reemployment accurately reported information in the 3rd quarter ETA-9090. Specifically, they could not provide data to support the following line items on the performance report:

- Total Registrants
- Total Exiters
- Customer Satisfaction Surveys – number of completed surveys, number of employers/exiters, and number of individuals in the sample
- Skill Attainment Rate

Users of ETA-9090 cannot rely on the data contained in the report and cannot make informed decisions regarding progress toward meeting performance goals based on the information contained in the reports.

Strong internal control dictates that performance reports should be based on DTR's performance records and that documentation be maintained to provide support for the WIA performance reports. Further, A-133 Compliance Supplement Part 3 indicates that applicable performance records should support the data as submitted in the required performance reports.

Recommendation

We recommend that DTR improve their method of keeping supporting documentation for WIA performance reports. There must be some support for reports to prove existence and valuation.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 01-CWD-15: The Department For Training And Reemployment Did Not Provide Supporting Documentation For Parts Of The Performance Report (Continued)

Management's Response and Corrective Action Plan

DTR has changed the process for maintaining supporting documentation for performance reports. We believe that keeping these records in a central location with the responsibility given to a single staff person will allow us to provide supporting documentation when needed.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**CABINET FOR WORKFORCE DEVELOPMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2001**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Reportable Conditions</u>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY 99	99-CWD-1	The Division Of Unemployment Insurance Should Perform Regular Cash Reconciliations To Safeguard Assets	N/A	\$ 0	Resolved during FY 01.
FY 99	99-CWD-2	The Division Of Unemployment Insurance Should Strengthen Controls Over Cash	N/A	0	Resolved during FY 01.
FY 99	99-CWD-8	The Division Of Unemployment Insurance Should Ensure Supporting Documentation Used In Preparation Of Federal Report Is Accurate	17.225	0	Resolved during FY 01.
FY 00	00-CWD-1	The Division Of Unemployment Insurance Should Perform Regular Cash Reconciliations To Safeguard Assets	N/A	0	Resolved during FY 01.
FY 00	00-CWD-2	The Division Of Unemployment Insurance Should Strengthen Controls Over Cash	N/A	0	Resolved during FY 01.
FY 00	00-CWD-7	The Division Of Unemployment Insurance Should Use Valid And Accurate Supporting Documentation For Reports ETA 191 And ETA 2112	17.225	0	Resolved during FY 01.
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 99	99-CWD-7	The Department Of Employment Services Should Implement Controls To Ensure All Applicable Regulations And Program Policies Are Followed In Their Administration Of Federal Programs	17.246	613,950	The Department of Employment Services is contesting the final determination ruling of the U.S. Department of Labor Grant Officer before an Administrative Law Judge.

**CABINET FOR WORKFORCE DEVELOPMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
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Reportable Conditions (Continued)

(2) Audit findings not corrected or partially corrected: (Continued)

FY 00	00-CWD-6	The Department For Training And Reemployment Should Comply With JTPA Regulations And OMB Circular A-133 Regarding Resolution Of Subrecipient Audit Findings	17.246 17.250	\$0	See 01-CWD-13 and 01-CWD-14.
FY 00	00-CWD-8	The Department For Training And Reemployment Should Complete The Process Of Reviewing Subrecipient Invoices And Updating MARS To Accurately Reflect Actual WIA Expenditures	17.255	0	See 01-CWD-8.

(3) Corrective action taken is significantly different from corrective action previously reported:

There were no findings to report in this category.

(4) Audit finding no longer valid:

There were no findings to report in this category.

**CABINET FOR WORKFORCE DEVELOPMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
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Material Weaknesses/Noncompliances

(1) Audit findings that have been fully corrected:

There were no findings to report in this category.

(2) Audit findings not corrected or partially corrected:

FY 00	00-CWD-3	The Division Of Unemployment Insurance Should Implement The Corrective Action Plan To Assure The Closing Package Schedule For Account Receivable Is Correct	N/A	\$0	See 01-CWD-4 and 01-CWD-5.
FY 99	99-CWD-3	The Division of Unemployment Insurance Should Ensure Computer Accounting Systems Are Operating Effectively And Amounts Reported From Those Systems Can Be Supported	N/A	0	See 01-CWD-4 and 01-CWD-5.
FY 99	99-CWD-9	The Office Of Training And Reemployment Should Comply With Job Training Partnership Act Regulations And OMB Circular A-133 Regarding Resolution Of Subrecipient Audit Findings	17.246 17.250	0	See 01-CWD-13 and 01-CWD-14.

(3) Corrective action taken is significantly different from corrective action previously reported:

There were no findings to report in this category.

(4) Audit finding no longer valid:

FY 99	99-CWD-11	The Kentucky Office Of School-To-Work Should Comply With School-To-Work And OMB Circular A-133 Subrecipient Monitoring Requirements	84.278	0	Funds for this grant have been fully expended.
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**CABINET FOR WORKFORCE DEVELOPMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Other Matters</u>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY 98	98-WFDC-12	The Cabinet For Workforce Development Should Implement Controls To Ensure That All Subrecipient Monitoring Reports Are Issued Timely	17.246 17.250	\$0	Resolved during FY 01.
FY 98	98-WFDC-3	The Cabinet For Workforce Development Should Implement Controls To Ensure That Bank Statements Are Reconciled Each Month	N/A	0	Resolved during FY 01.
FY 98	98-WFDC-7	The Cabinet For Workforce Development Should Ensure That Agency Records Are Properly Reconciled To Statistical Data	N/A	0	Resolved during FY 01.
FY 00	00-CWD-4	The Cabinet For Workforce Development Should Implement Controls To Ensure Reported Payables At Fiscal Year End Includes All Significant Payable Types	N/A	0	Resolved during FY 01.
FY 00	00-CWD-5	The Cabinet For Workforce Development Should Implement Controls To Ensure Completeness And Accuracy When Reporting Payables At Fiscal Year-End	N/A	0	Resolved during FY 01.
FY 00	00-CWD-9	The Department Of Training And Reemployment Should Review Procedures Currently In Place And Implement Procedures To Ensure All Monitoring Reports Are Issued In A Timely Manner	17.255	0	Resolved during FY 01.

**CABINET FOR WORKFORCE DEVELOPMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Other Matters (Continued)</u>					
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 96	96-WFDC-1	The Cabinet For Workforce Development Should Comply With JTPA Financial Management Guide And OMB Circular [A-128 For FY 96] By Properly Monitoring And Resolving Subrecipient Audit Findings	17.250	\$0	See 01-CWD-13 and 01-CWD-14.
FY 98	98-WFDC-4	The Cabinet For Workforce Development Should Ensure That All Write-Offs From Accounts Receivable Are Properly Authorized Prior To Processing	N/A	0	See 01-CWD-4 and 01-CWD-5.
FY 98	98-WFDC-9	The Cabinet For Workforce Development Should Properly Review Federal Reports And Supporting Documentation For Accuracy (ETA 581)	17.225	0	See 01-CWD-10.

(3) Corrective action taken is significantly different from corrective action previously reported:

There were no findings to report in this category.

(4) Audit finding no longer valid:

There were no findings to report in this category.